



DIRECTIVE 05-8

September 9, 2005

QUALIFICATION OF SOLD PROPERTIES IN THE STATE'S SALES FILE FOR PROPERTIES THAT HAVE SUBSTANTIALLY CHANGED SINCE THE DATE OF SALE

Purpose. This Directive clarifies Title 350, Chapter 12, Regulation 002.10 and provided examples of when a sold property is deemed substantially changed after the date of sale and deemed to be a non-qualified sale in the state's sales.

Procedure and Implementation. Title 350, Chapter 12, Regulation 002.10 states that a "non-qualified sale shall mean a sale which has been identified through the sales review process as a non-arm's length transaction or **where the property as assessed is substantially different from the property as it was when sold.**" (Emphasis added.) If a parcel of real property sells in an arm's length transaction and subsequent to the sale the parcel undergoes a physical or economic change sufficient to substantially affect the market value of the parcel after the change so that the parcel no longer represents the parcel when it sold, it is the position of the Department that the sale shall not be used to measure the level of value. When this occurs the sale shall be coded as a non-qualified sale using a code 3.

Examples of such substantially changed parcels include, but are not limited to, the following:

1. A parcel of agricultural grass land is sold. Following the sale, the land is converted to dry land or irrigated land.
2. A parcel of residential property is sold. The improvement on the parcel is substantially remodeled after the sale.
3. A parcel of commercial property is sold. The improvement on the parcel at the time of sale is removed and a new improvement is built in its place.

These are only three of many examples that can be given, which describe a property that has substantially changed. The purpose of qualifying these otherwise arm's length transactions as non-qualified sales in the state's sales file is two fold: one, it eliminates the need to artificially value the property in the state's sales file and thereby create a disconnection between the assessed value of the property and the value reported in the sales file; and, it prevents an error in measurement by eliminating parcels whose assessed value cannot be used for measurement without adjusting the assessed value. Additionally, the Standard on Ratio Studies of the International Association of Assessing Officers, 1999, states in section 4.3, in pertinent part, relating to parcels with significant differences in physical characteristics, that "[i]n general, parcels with such changes should be excluded from ratio studies. However, minor physical changes should not cause a parcel to be excluded."

The challenge for county assessors is to assure that the interpretation of significant is consistent within the assessment jurisdiction. The challenge for the Department is to assist the county assessors in consistently interpreting significant among all counties.

The Department shall assure that the usability code three (3) allows for the identification of such substantially change parcels so that analysis of sales is available in the state's sales file, although the property will not be used to calculate the assessment/sales ratio for the purposes of determining level of value.

APPROVED:

/s

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